

## Minutes of Briefings on Operating Results for 2Q FY2023

Corporate Communications & Investor Relations Div.

### **[Architectural Glass] [Automotive]**

**Q: Can I assume that the core businesses, such as automotive and architectural glass, are beginning to see the benefits of structural reforms and improvements in the supply-demand balance that have been implemented to date, and that their earnings are now beginning to stabilize?**

A: The implementation of structural improvements and changes in the industry structure have resulted in very stable core businesses. Our Architectural Glass business operates in Europe, South America, and Asia, and demand for energy-saving, especially heat-insulating glass, is strong in Europe. While this demand persists, there are no new float furnace being built, so the situation remains favorable. Asia is stronger than before. For a long time, this business had struggled in Japan, but it has become stable because of the major trend toward energy saving and supply side changes in Japan as well.

Automotive had its worst period with the pandemic, semiconductor shortages, and supply chain disruptions, but is finally in the process of normalizing. Volumes in 2023 will not return to the 2019 level, but volumes are expected to return considerably in 2024, marking a solid improvement. AGC is in a position to further increase profitability by implementing cost structure improvements and other measures in parallel with its pricing policy.

### **[Automotive]**

**Q: Regarding Automotive, the operating margin does not appear to be high despite the fact that auto production is recovering. What level of operating margin are you aiming for when negotiating for pass-through, which you have been working on since last year? Also, from the perspective of the ROCE target, what is the percentage improvement now?**

A: For Automotive glass, we have traditionally explained that three measures are necessary. We aim to achieve a 10% ROCE on three fronts: price optimization, structural reforms, and higher functionality. First, we are starting to see the impact of price optimization, but to eventually reach 10%, we need to further increase the ratio of high-functional products while making progress with structural reforms. We don't know if we can break 10% ROCE next year and the year after, but we hope to do so in the late 2020s.

### **[Electronics]**

**Q: The full-year operating profit plan for Electronics has been reduced by ¥13 billion. What is the breakdown between Display and Electronic Materials?**

A: You could think of it as 50/50. For the Display business, the impact of the operating adjustments in Q1 was significant. Although Electronic Materials are putting up a good fight, the impact of the slowdown in the smartphone and semiconductor markets was slightly larger than we anticipated.

**Q: The semiconductor market continues to deteriorate. What is the outlook for semiconductor materials such as photomask blanks for EUV lithography in second half and when do you expect inventory adjustments to be completed?**

A: Photomask blanks for EUV lithography are growing steadily, unaffected by the slowdown in the semiconductor market. AGC's shipments have been firm. In 2022, shipments were affected by a temporary inventory

adjustment, but this has been resolved since Q4 of 2022 and shipments have been steady this year. We expect to increase sales by 40% YoY, but we are in a situation where we can grow a little more. CMP slurry and other products have been slightly affected by market conditions currently, but inventory adjustments by customers have been completed since Q2. We thus expect to see a recovery in second half.

**Q: Why do you see Electronics sales staying flat? What is the impact of each when broken down in the CMP slurry and smartphone markets? Please also comment on the recovery trajectory for next year and beyond.**

A: Affected by the decline in smartphone volumes, blue filters, which had been the driver force of this business, are now at a plateau. As for semiconductor-related products, photomask blanks for EUV lithography are growing, but CMP slurries and other products are weak due to the semiconductor slowdown, so we do not foresee significant growth in 2023. That said, since the semiconductor slowdown is gradually ebbing, we expect the industry to return to a growth trajectory in 2024 and beyond.

**Q: What is the impact of generative AI on semiconductor materials?**

A: This will be a tailwind for high-end semiconductors, as semiconductors made exclusively for generative AI will also be booming in the future. This will be a very favorable tailwind for AGC, as it will increase demand for its high-end related products such as photomask blanks for EUV lithography.

**Q: A chemical manufacturer that recently reported earnings commented that its EUV mask blanks are now being evaluated by customers and will finally be incorporated into production lines. What is your current view of the competitive landscape for EUV mask blanks over the next year?**

A: We are not in a position to comment on the trends of other manufacturers. We are aware that there are some new market entrants, but we do not expect the environment to change significantly in 2024 or the near term.

**Q: What are your thoughts on price revisions in the Display business? Both of your competitors have publicly commented on price increases, but is AGC in a similar situation where they are aiming for a double-digit or more price revision?**

A: We will refrain from giving specific details on the price revisions. But under these circumstances, we will negotiate with our customers and work on the price revisions, including the amount of cost increases.

#### **[Chemicals]**

**Q: Regarding PFAS regulations. What is the business impact on AGC? Among PFAS, I believe PFOS and PFOA with eight carbon atoms are particularly problematic, but the scope of regulation is expanding to six carbon atoms and longer term organic fluorine compounds with nine or more carbon atoms. In the future, fluorine compounds with a low number of carbon atoms may also be subject to regulation. In each case, are there any of your product groups that may be affected?**

A: PFAS is a generic name for organic fluorine compounds, and there are about 12,000 kinds. The most controversial regulated substance picked up by the media is PFOS, which is used as a fire extinguishing agent. There are lawsuits in the U.S. regarding PFOS, but AGC does not manufacture or sell it. Another regulated substance, PFOA, is an emulsifier, but due to a generational change, we completely abolished it

ahead of the regulation. There is currently no significant risk related to regulated substances. AGC's focus is on resins and other products that are not absorbed into the body and are extremely safe, as well as pharmaceuticals, agrochemicals, and other products controlled by law and regulations. We operate our business while confirming their safety. Broadly speaking, AGC would be categorized as a PFAS manufacturer. But our business portfolio focuses on safe products, and we do not see any significant risk at this time.

**Q: Overseas, there has been news of lawsuits and other legal action due to environmental pollution caused by PFAS-related products. Is it safe to assume that this is not a risk for AGC?**

A: The biggest issue is related to PFOS. The U.S. lawsuit casts a wide net, listing as defendants numerous companies that deal with fluorine, including our U.S. subsidiary. However, AGC Inc. has not received a complaint and is not a party to the lawsuit. We are also conferring with our lawyers to address the issue. No lawsuits have been filed in Japan.

**Q: What is the outlook for the PVC and caustic soda markets and what is the background?**

A: In the PVC market, demand from China and the U.S. is affecting Southeast Asia. China is recovering a bit now, so we see a lift off the bottom, but we do not expect a strong recovery. In China, economic stimulus measures are gradually beginning to be implemented. However, we do not expect a full-fledged recovery in market conditions. We anticipate the market to remain at around the first half level for the rest of the year. There is a potential for a little more recovery, but that is our outlook now. We also note there is no risk of further a decline in the cost structure perspective.

**Q: The operating profit plan for 2H for Chemicals is ¥9.2 billion higher than 1H. Could you explain Essential Chemicals and Performance Chemicals separately?**

A: We do not expect a major recovery in Essential Chemicals at this point. So the increase in profit is mostly from Performance Chemicals. Performance Chemicals is 2H-tilted business, and we expect profit growth over 1H from a recovery in automotive and other sectors.

**[Life Science]**

**Q: The full-year operating profit plan for Life Science was cut by ¥22 billion. How much of this reduction is attributable to U.S. operations and the reduced inflow of funds into biotech ventures? Also, how should we be looking at Life Science in 2024?**

A: Within Life Science, Biopharmaceuticals CDMO is struggling considerably. Of the ¥22 billion, a significant portion is attributable to the U.S. Originally, the plan for Biopharmaceuticals CDMO was to win many small projects using our signature single-use bags (SUBs) to fill the void left by the disappearance of COVID-related special demand. However, monetary tightening in the U.S. has reduced the number of contracts from biotech ventures. In addition, we are having a tough time with the start-up of the Boulder, Colorado site that we acquired from a pharmaceutical company through M&A. There are various issues with the large stainless steel mammalian cell bioreactor installed there, and we are currently conducting a very careful operational check to win the trust of our customers. This is expected to take until near the end of the year. While Europe and Japan are performing well, the U.S. is struggling as noted above, so a big portion of the downward revision is attributable to the U.S. As for 2024, it is difficult to read how reduced fund inflows to biotech ventures will

turn out against the monetary tightening measures in relation to higher interest rates, but we have to be cautious and do not expect a full-blown recovery. Meanwhile, the cost of launching new lines has been a heavy burden in 2023, but we expect an improvement in 2024. As it is a growing industry, it was originally thought that the sales target of ¥200 billion in 2025 could be achieved a year ahead of schedule. But it currently looks quite challenging to achieve that target a year earlier. We believe it is still possible to achieve the target in 2025 and are aiming to do so.

**Q: What is the impact of the cost increase and upfront cost increase due to the delayed launch of the new U.S. Biopharmaceutical CDMO lines?**

A: We do not disclose the specific impact of individual events. What hurts most is the decline in up-time ratio, followed by the challenges in launching new lines.

**Q: When do you expect the operating margin of Life Science to return to traditional level of more than 20%?**

A: It is difficult to expect a sudden recovery next year. We envision an upturn after 2024 and a recovery with a considerable increase in the up-time ratio in 2025. An operating margin of 20% can easily be achieved if up-time ratio increases.

**Q: What are the specific challenges in launching new Biopharmaceutical CDMO lines in the U.S.?**

A: Although we have small-sized stainless steel mammalian cell bioreactor, mainly SUBs, this is the first time we have worked on large-scale stainless steel mammalian cell bioreactor. A few unforeseen things happened during launch. We are conducting a general inspection because the nature of the business requires production with reliable processes. This is taking longer than expected. Since we already have customers and their expectations are very high, we are not losing our reliable relationship with them. If we are able to manufacture reliably, we will surely be able to generate sales and profits.

**Q: On page 19 of the briefing materials, you mention delays in launching new lines in the U.S. as the "Biggest challenge." What is the root cause of this? Is it an individual plant issue or up-time ratio issue, as facilities, processes, worker proficiency, yield, etc? Are there also an impact on business environment deterioration? Please explain in more detail what are the overlapping and independent parts of the three factors on page 19.**

A: Delays in launching new lines have occurred at the new plant just described, but there have not been mission critical problems. Currently, we are simply not proficient enough with the new equipment, but this will improve with time. That said, it is taking longer than expected. Since the facility is in effect not in operation, only costs are being incurred. The situation will improve dramatically once proficiency rises and we begin making product.

**Q: What is the probability that the new U.S. Biopharmaceutical CDMO lines will be launched by the end of 2023? Is the end of the fiscal year a milestone for now, or is it a specific achievable timing?**

A: We are proceeding very cautiously and expect a recovery with a fairly high degree of certainty. The process is being addressed with verification and recovery will come by the end of this year.

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